

IV. Review of Resource Flexibility

Efforts to Manage Resources

Butte County (County) reports that it continues to struggle to provide services to residents due to constrained revenue resources. The following remedies and efforts have been implemented by the County in an effort to continue its operations:¹

- Use of reserves
- Revenue enhancements
- Expenditure constraints

The County maintains that its revenue deterioration began with the passage of Proposition 13 in 1978 and the subsequently enacted Assembly Bill 8, which apportioned property tax shares.² This resulted in the County receiving a 26 percent share of total property taxes collected. Since that initial allocation and a series of property tax reallocations, by Fiscal Year (FY) 1995-96, the County's share of property tax decreased to 13 percent compared to a statewide average of 20.5 percent. The County's share of property tax has remained at or under the 13 percent level since that time.³

As a result of tax shifts in FY 2004-05, the property tax retained by the County is expected to increase in 2004-05 from the current 12.7 percent to approximately 20 percent while sales taxes are expected to decrease by one-fourth, and the Vehicle License Fee (VLF) revenue is projected to decrease.⁴ See Section II. Overview of County Finances, for further details regarding the tax shifts.

The County's application includes a five-year fiscal forecast.⁵ Based on this forecast, the County expects its financial condition to improve in FY 2006-07 when the two-year property tax shift from the County to the state concludes, and the state begins repaying its obligations to the County (i.e., VLF gap loan and state mandated costs).⁶

General purpose revenue has gradually increased from \$53.5 million in FY 2000-01, to \$58.3 million in 2003-04, and to \$61.6 million in 2004-05.⁷ However, in FY 2004-05, the County's total expenditure requirements are expected to exceed total revenue, leading to a shortfall of approximately \$8.6 million.⁸ This shortfall is funded by sources such as general fund balance carryover from FY 2003-04.

¹ Butte County Application, p. 52

² [Assembly Bill 8, Chapter 282, Statute of 1979](#)

³ Butte County Application, p. 4 and p. 67

⁴ Butte County Application, p. 13

⁵ Butte County Application., p. 49-50

⁶ Butte County 2004-05 Proposed Budget, p. 9

⁷ Butte County Application, p. 62

⁸ Butte County Application, p. 1 and [Butte County 2004-05 Final Budget, Schedule 5 & Schedule 8](#)

Staff analyzed the estimated major revenue sources for FY 2004-05, reserves, and potential resources to determine whether any resource flexibility exists as follows:

Revenue Flexibility

The County's FY 2004-05 Final Budget revenue estimates reflect the "triple flip" and the VLF/Property Tax swap. However, the State Controller had not calculated the revenue shifts at the time when the County prepared its final budget.⁹ Staff analysis of the FY 2004-05 Final Budget discloses that General Fund revenues are composed of the following elements:¹⁰

General Fund Revenue FY 2004-05 Final Budget				
Fines, Forfeit, Penalties	1,879,023	1.21%	1,899,981	0.58%
Use of Money & Property	1,907,700	1.23%	1,986,700	0.60%
Governmental Revenues	-	0.00%	-	0.00%
State Revenues	67,111,145	43.35%	145,806,508	44.33%
Federal Payments	8,087,343	5.22%	70,773,110	21.52%
Other Intergovernmental	3,247,454	2.10%	5,155,486	1.57%
Charges for Services	19,612,997	12.67%	22,461,028	6.83%
Misc. Revenue	3,496,994	2.26%	4,041,580	1.23%
Other Rev. (Trans. to other Funds)	2,589,555	1.67%	19,752,673	6.01%
sub-total	146,047,717	94.33%	310,050,572	94.27%
Fund Balance (As of June 30, 2004)	8,771,151	5.67%	16,505,737	5.02%
Cancellation of Prior Year Reserves/Designations	-	0.00%	2,319,398	0.71%
TOTAL	\$ 154,818,868	100.00%	\$ 328,875,707	100.00%

General Fund Revenue - The General Fund revenue total includes \$14.5 million transfers in the Other Revenues category. The General Fund revenue total includes \$2.6 million transfers in Other Revenue category: Transfer to the General Fund from Equipment Replacement Fund, \$2,000,000; and Intra-fund transfer, \$589,555.¹¹

General Purpose Revenue - The County's application includes estimated general purpose revenue for FY 2004-05 of \$61.6 million. Property tax, sales tax, motor vehicle in-lieu fees, and Proposition 172 sales tax revenues comprise \$44.5 million or 72 percent of the total general purpose revenue.¹²

⁹ Butte County response to staff questions, dated March 30, 2005, Fiscal Question # 13

¹⁰ Butte County 2004-05 Final Budget, Schedule 5

¹¹ Butte County 2004-05 Final Budget, Schedule 5

¹² Butte County Application, p. 10

As presented in the above schedule, three major revenue sources (property tax, state revenues, and charges for services) account for \$111.7 million, or 72 percent, of the General Fund revenues. Staff analyzed the estimated major revenue sources for FY 2004-05 to determine whether any revenue flexibility exists.

Vehicle License Fee (VLF) - Revenues for the last three fiscal years and the FY 2004-05 estimated revenues are presented below:¹³

Vehicle License Fee Tax				
	Actual FY 01-02	Actual FY 02-03	Actual FY 03-04	Estimate FY 04-05
Revenue	13,081,887	13,596,512	10,962,964	4,600,000
\$ change		514,625	(2,633,548)	(6,362,964)
% change		3.93%	-19.37%	-58.04%

The County estimated that the motor vehicle in-lieu tax revenue at approximately \$4.6 million for FY 2004-05. This VLF/Property tax revenue shift estimate represents an approximate 58 percent decrease from actual FY 2003-04 revenues of \$10.9 million. Per the County's response to staff questions, the State Controller had not computed the revenue shifts when the County projected the VLF tax revenue. Recently, the County learned that it will not receive any VLF revenues, but will receive additional property taxes in exchange for the loss of VLF taxes. However, it is uncertain how the revenue shifts will actually affect the County revenue until August 2005.¹⁴ Therefore, staff did not perform any analysis on VLF revenues or property tax revenues.

Sales Tax - The County's estimated FY 2004-05 sales tax revenues of \$3.1 million decreased by approximately 18.5 percent from the actual FY 2003-04 revenues of \$3.8 million. The following presents sales tax revenues for the last three fiscal years and increases and decreases from the prior years.¹⁵

Sales Tax				
	Actual FY 01-02	Actual FY 02-03	Actual FY 03-04	Estimate FY 04-05
Revenue	3,278,612	3,517,480	3,846,573	3,136,445
\$ change		238,868	329,093	(710,128)
% change		7.29%	9.36%	-18.46%

Staff estimates that pre-tax shift sales-tax revenue to be \$4.1 million based on FY 2001-02, 2002-03, and 2003-04 growth rates.¹⁶ As a result of this new tax shift, the sales tax is reduced by one-fourth, and the post-tax shift sales revenue is projected to be \$3.1 million (.75*4.1). Consequently, staff concludes the County's estimate of \$3.1 million to be reasonable.

Property Tax - The County estimates property tax revenue of \$24.9 million in FY 2004-05. This estimate is an increase of 57 percent from the actual FY 2003-04 revenue amount of \$15.9

¹³ Butte County Application, p. 63 and Butte County 2004-05 Final Budget, Schedule 5

¹⁴ Butte County response to staff questions, dated March 30, 2005, Fiscal Question # 13

¹⁵ Butte County Application, p. 63 and Butte County 2004-05 Final Budget, Schedule 5

¹⁶ Staff applied the *Excel* growth function in estimating the pre-tax shift sales for 2004-05.

million. The following information presents property tax revenues for the last three fiscal years and increases or decreases from the prior years:¹⁷

Property Tax				
	Actual FY 01-02	Actual FY 02-03	Actual FY 03-04	Estimate FY 04-05
Revenue	13,932,321	14,964,668	15,864,745	24,939,977
\$ change		1,032,347	900,077	9,075,232
% change		7.41%	6.01%	57.20%

As discussed earlier in the VLF section, it is uncertain how the new revenue shifts will actually affect the County revenue until August 2005. Therefore, staff did not perform any analysis on property tax revenues.

Charges for Service - The FY 2004-05 revenue total for all funds is projected to be \$22.7 million. Of the \$22.7 million, the projected revenue for the General Fund totals \$19.6 million. The following presents the General Fund Charges for Services for the last three fiscal years and increases or decreases from the prior years:¹⁸

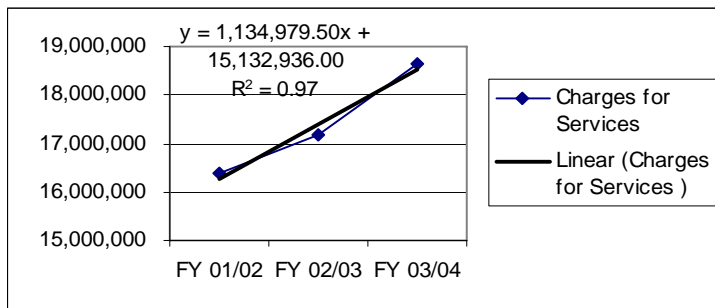
Charges for Services (General Fund)				
	Actual FY 01-02	Actual FY 02-03	Actual FY 03-04	Estimate FY 04-05
Revenue	16,373,090	17,192,546	18,643,049	19,612,997
\$ change		819,456	1,450,503	969,948
% change		5.00%	8.44%	5.20%

The County estimates that FY 2004-05 revenues will increase by 5.2 percent from the 2003-04 levels. Staff believes that 5.2 percent is rather conservative, given the growth rate in FY 2003-04. In estimating Charges for Services in FY 2004-05, staff first applied the following two methods: 1) Apply the growth rate of 6.72 percent (average of 5 percent and 8.44 percent) to the actual FY 2003-04 revenues; and 2) Perform a regression analysis based on the historical data, and take the average of these two methods. The following summarizes the results:

¹⁷ Butte County Application, p. 63 and Butte County 2004-05 Final Budget, Schedule 5

¹⁸ Butte County 2003-04 Final Budget, Schedule 5 and Butte County 2004-05 Final Budget, Schedule 5

Estimation of FY 2004-05 Charges for Services (General Fund)



Method 1)	19,896,021	(=18,643,049*1.0672)
Method 2)	19,672,856	(=15,132,936+1,134,980*x; x=4)
Average of 1) and 2)	19,784,438	(=(19,896,021+19,672,854)/2)
Over (Under) statement	(171,441)	(=19,612,997-19,784,438)

Therefore, staff finds that the County's estimated Charges for Service revenue (General Fund only) for FY 2004-05 may be understated by \$171,441.

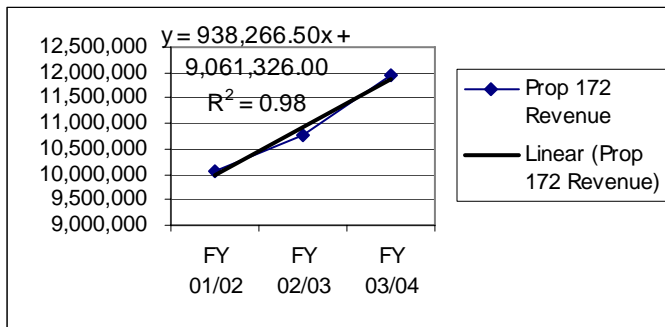
Proposition 172 - The Proposition 172 sales tax revenue is a dedicated state-allocated tax for public safety programs. The County estimates FY 2004-05 Proposition 172 sales tax revenue of \$11.8 million. The following information presents Proposition 172 revenues for the last three fiscal years and increases or decreases from the prior years:¹⁹

Proposition 172 Revenue				
	Actual FY 01-02	Actual FY 02-03	Actual FY 03-04	Estimate FY 04-05
Revenue	10,079,441	10,778,162	11,955,974	11,780,000
\$ change		698,721	1,177,812	(175,974)
% change		6.93%	10.93%	-1.47%

The County estimates that FY 2004-05 revenue will decrease by 1.47 percent from the 2003-04 level. Further, in the County's response to staff questions, the County staff states that budgeted revenue in FY 2004-05 was based largely upon actual revenues received year-to-date in 2003-04, and that the estimates were developed prior to receipts of all 2003-04 Proposition 172 revenues. Given the growth rate in FY 2003-04, it appears that the County's estimate for 2004-05 is understated. In estimating Charges for Services in FY 2004-05, staff first applied the following two methods: 1) Apply the growth rate of 8.93 percent (average of 6.93 percent and 10.93 percent) to the actual FY 2003-04 revenue, and 2) Perform a regression analysis based on the historical data, and take the average of these two methods. The following summarizes the results:

¹⁹ Butte County Application, p. 64, and County 2004-05 Final Budget, Schedule 5, and Butte County response to staff questions, dated March 30, 2005, Fiscal Question # 19

Estimation of FY 2004-05 Proposition 172 revenue



Method 1)	12,814,392	(=1,195,5947*1.0893)
Method 2)	13,023,637	(=9,061,326+938,267*x; x=4)
Average of 1) and 2)	12,919,014	(=(12,814,392+13,023,637)/2)
Over (Under) statement	(1,139,014)	(=11,780,000-12,919,014)

Therefore, staff finds that the County's estimated Proposition 172 revenues for FY 2004-05 may be understated by \$1,139,014.

Summary of Revenue Flexibility

REVENUE	Staff Recommendation
Motor Vehicle in-lieu Tax	\$ -
Sales Tax	-
Property Tax	-
Prop. 172 Sales Tax	1,139,014
Charges for Services	171,441
Revenue Flexibility	\$ 1,310,455

Staff recommends that the Commission find that, based on County's revenue growth trends, the County's revenue estimates may be understated by \$1,310,455.

Reserves

Appropriation Contingencies -The County's FY 2004-05 Final Budget estimated a General Fund balance of \$8.7 million at June 30, 2004. The \$8.7 million General Fund balance was used to balance the FY 2004-05 Final Budget.²⁰ The FY 2004-05 Proposed Budget includes a General Fund contingency fund of \$5.6 million.²¹ Staff notes that the County's general fund contingency represents 1.75 percent of total appropriations.²²

²⁰ Butte County Application, p. 11

²¹ Butte County Application, p. 66

²² Butte County Application, p. 66 and Butte County 2004-05 Final Budget, Schedule 1 & Schedule 8

The following information demonstrates that the County's contingencies are above the average of comparable counties' contingency levels.²³

Contingencies for Comparable Counties

	Butte	El-Dorado	Humboldt	Placer	Shasta	Yolo	Avg. of other Co's
Total Budget	320,894,751	351,843,870	201,255,779	550,699,866	295,954,979	251,898,654	
Contingency Appropriation (General Fund)	5,616,078	4,815,000	1,209,798	5,689,161	2,307,078	2,257,000	
% of Total Budget	1.75%	1.37%	0.60%	1.03%	0.78%	0.90%	0.94%

Staff acknowledges the benefits of maintaining a fund for contingencies. Nevertheless, staff finds that contingency appropriations are non-essential during this time of fiscal constraints and limitations. Therefore, staff recommends that the entire \$5.6 million be considered resource flexibility.

Cost Savings Flexibility - The County issued Pension Obligation Bonds (POB) to reduce the County's retirement contributions to the California Public Employee's Retirements System. The estimated cost savings resulting from the issuance of these bonds is \$350,000 per year. Further, the County implemented an early retirement program. The estimated cost savings resulting from the program is \$175,000 per year.²⁴ Staff asked the County where these cost savings were applied to in the Final Budget. The County's response was that the cost savings were applied in the Final Budget in the same way they had been applied in the Proposed Budget.²⁵ In developing the County's FY 2004-05 Proposed Budget, the contingency amount was temporarily lowered by the amount of cost savings (\$525,000) in place of lowering the appropriations for salaries and benefits in various departments.²⁶ Consequently, when the actual savings are known and are applied to salaries and benefits in various departments, the contingency will increase by \$525,000. Therefore, staff recommends \$525,000 to be considered a resource flexibility.

Unexpended Appropriations – Staff analysis of the FY 2004-05 Final Budget discloses that total available financing exceeds total financing requirements as presented below:²⁷

²³ See Attachment ____ for Comparable counties' budgets information.

²⁴ Butte County Application, p. 52-53

²⁵ Butte County response to staff questions, dated March 30, 2005, Fiscal Question # 9

²⁶ Butte County 2004-05 Proposed Budget, Budget Message, p. 19

²⁷ Butte County 2004-05 Final Budget, Schedule 1

Unexpended Balance as of June 30, 2005

				<u>General Fund</u>
Fund Balance as of June 30, 2004				8,771,151
Total Revenue				146,047,717
Cancellation of Prior Year Reserves/Designations				-
Total Available Financing				154,818,868
Less: Total Financing Requirements				154,811,501
Unexpended Balance as of June 30, 2005				<u>7,367</u>

Therefore, staff recommends \$7,367 to be considered resource flexibility.

Internal Service Fund (ISF) Balance - The County's Internal Service Funds (account groups for the financing of goods or services provided by one department or agency to other departments or agencies on a cost-reimbursement basis) include the following accounts: Self-Insurance ISF, Workers' Compensation, Unemployment Insurance ISF, Medical Liability Insurance ISF, Transit Self-Insurance ISF, Miscellaneous Insurance ISF, Building & Grounds ISF, Utilities, Duplicating ISF, and Stores ISF. The County's audited Combining Balance Sheet dated June 30, 2004, shows that the ending unrestricted net assets of Internal Service Funds totaling \$1,265,886.²⁸ However, it is unclear to staff what composes the \$1,265,886. Staff analysis of the budgeted Internal Service Funds revenue discloses that the General Fund comprises 65 percent of the total County contributions.²⁹ Therefore, staff recommends that the \$831,939 (65 percent of \$1,265,886) be included as resource flexibility.

Based on the information contained in the Application and the additional information received from the County on March 30, 2005, staff recommends that the following reserves/fund balances be included in the County's resource flexibility.

Summary of Reserves Flexibility

				Staff Recommendation	
RESERVES					
Appropriation for Contingency				5,616,078	
Cost Savings Flexibility				525,000	
Unexpended Available Resources				7,367	
Internal Service Fund Balance				831,939	
Reserves Flexibility				\$ 6,980,384	

Staff recommends that the Commission find that reserve flexibility totaling \$6,980,384 is available to the County.

²⁸ Butte County response to staff questions, dated March 30, 2005, Fiscal Question # 1

²⁹ Butte County 2004-05 Final Budget, Schedule 10 (The figure excludes the General Fund contribution to the Unemployment Insurance ISF since this information was not available at the time of staff analysis.)

Potential Resource Flexibility

As part of the new tax shifts, the state plans to eliminate the VLF backfill and reduce the VLF rate from 2 percent to 0.65 percent. In exchange for the loss of VLF revenue, counties will receive an equivalent amount of property taxes. However, for the first two years (FYs 2004-05 and 2005-06), counties will not receive the full amount because the state will retain \$700 million. The County contributions are estimated to be \$1,968,640 in each year.³⁰ Consequently, starting in FY 2006-07, the County will receive additional property tax revenues.

The County received \$4.3 million less in VLF backfill revenues (VLF gap) in FY 2003-04 due to the lag time required by the state. AB 1768³¹ provided that this gap would be repaid to local governments in FY 2006-07. The County anticipates receiving \$4,315,228 for unpaid VLF's on or around August 2006. At the February 2005 County Board of Supervisor's (Board) meeting, the use of anticipated revenue was discussed. The County's Chief Administrative Officer (CAO) recommended using these funds (which would come from selling an obligation due from the state) to pay for solar energy. The CAO further stated that paying for solar energy would free the County from paying construction bonds resulting in an additional \$325,000 a year in unrestricted funds. The Board voted four to one to accept the \$4.3 million with the requirement that the funds can be used only for capital projects such as the solar project.³²

Due to nonfunding of state mandates in FYs 2003-04 and 2004-05, the County has a balance due from the state. These amounts due from the state are summarized below:³³

³⁰ Butte County 2004-05 Proposed Budget Message, p. 9

³¹ Assembly Bill 1768, Chapter 231, Statute of 2003

³² See Attachment 10 for Chico Enterprise, "County windfall won't go to the sheriff, DA", February 9, 2005

³³ Butte County response to staff questions, dated April 11, 2005, Fiscal Question # 4

Butte County Mandate Receivables

Mandate	Claim Amount	State Payment	Remaining Payment
Absentee Ballots	\$355,734	\$145,742	\$209,992
Allocation of Property Tax Revenue (ERAF)	\$13,245	\$10,736	\$2,509
Animal Adoption	\$157,585	\$0	\$157,585
Child Abduction and Recovery	\$1,084,661	\$330,513	\$754,148
County Treasury Oversight Committees	\$18,324	\$0	\$18,324
Domestic Violence Arrest Policies and Standards	\$93,757	\$75,242	\$18,515
Domestic Violence Treatment Svcs Authorization & Case Mgmt	\$115,675	\$41,278	\$74,397
Elder Abuse Training	\$7,387	\$0	\$7,387
Grand Jury Proceedings	\$43,086	\$0	\$43,086
Investment Reports	\$30,275	\$14,134	\$16,141
Law Enforcement Sexual Harassment Training	\$7,568	\$0	\$7,568
Mandate Reimbursement Process	\$127,162	\$11,809	\$115,353
Mentally Disordered Offenders' Extended Commitment Proceedings	\$19,552	\$0	\$19,552
Misdemeanors: Booking & Fingerprinting	\$154,757	\$40,164	\$114,593
Not Guilty by Reason of Insanity	\$126,894	\$60,621	\$66,273
Open Meetings Act/Brown Act Reform	\$263,444	\$18,651	\$244,793
Permanent Absent Voters	\$7,939	\$0	\$7,939
Rape Victim Counseling Center Notices	\$1,974	\$2,136	(\$162)
Services to Handicapped Students	\$3,762,980	\$666,436	\$3,096,544
Sex Crime Confidentiality	\$2,205	\$0	\$2,205
Sex Offenders: Disclosure by Law Enforcement Officers (Megan's Law)	\$61,155	\$0	\$61,155
Sexually Violent Predators	\$242,546	\$54,381	\$188,165
SIDS Training for Firefighters	\$21,498	\$18,494	\$3,004
SIDS: Autopsy Protocols	\$29,297	\$6,600	\$22,697
SIDS:Contact By Local Health Officers	\$12,155	\$3,655	\$8,500
Unitary Countywide Tax Rate	\$11,294	\$3,518	\$7,776
Voter Registration Procedures	\$56,045	\$35	\$56,010
TOTAL			\$5,324,049

As specified in Senate Bill 1096, the state will begin repaying its mandate obligations over five years starting FY 2006-07.³⁴

The County's current sales tax is 7.25 percent, which is the lowest existing rate in California.³⁵ Staff inquired if the County had considered increasing the sales tax in order to increase general purpose revenue. Per the County response, the ballot measure for utility user tax in 1996 passed by a slim margin of 54.2 percent. Therefore, the County does not believe that it would be able to obtain a majority vote. Consequently, the County is not currently considering a sales tax increase.³⁶

³⁴ Senate Bill 1096, Chapter 211, Statute of 2004

³⁵ See Attachment 11 for "California City and County Sales and Use Tax Rates", July 2004 published by California Board of Equalization

³⁶ Butte County response to staff questions, dated March 30, 2005, Fiscal Questions # 2

Statutory Relief

The County's previous designation of financial distress expired on December 28, 2002.³⁷ Therefore, the County's FY 2004-05 Final Budget does not assume General Assistance (GA) program cost savings.

On February 10, 2005, the County filed an SB 1033 Application for a Commission finding of significant financial distress. The current GA rate for one person in an independent living situation is \$289. Based on the information provided by the County, staff estimates that 12-month GA payments at the current GA rate would total \$1,144,440.³⁸ The County anticipates recovering \$361,138 from state and federal disability payments to offset GA payments for FY 2004-05.³⁹ The Welfare and Institution Code allows the County to establish the GA grant level at no less than 40 percent of the 1991 Federal Poverty Level (FPL) with further reductions permitted in cases where recipients share housing.⁴⁰ The 1991 FPL is \$552.⁴¹ If the Commission makes a finding of significant financial distress, the County may reduce the GA rate to \$221 (40 percent of \$552). Based on the information provided by the County, staff estimated that a 12-month GA rate deduction savings would approximate \$269,280 and a 6-month GA rate deduction savings would be \$134,640.⁴²

Efficiencies

The Application details several revenue enhancing and expenditure control efforts.⁴³ While other possibilities in this area may be identified, it appears that the County continues to generate savings through the improved use of its limited resources.

Payroll

The County's FY 2004-05 Proposed Budget recommends eliminating 145 allocated positions to reduce costs. Of these 145 positions, 55 positions were filled.⁴⁴ As of March 23, 2005, the County's vacancy list showed 274 vacant positions.⁴⁵ The Final Budget added back a net of 11

³⁷ Butte County Application, p. 1

³⁸ Butte County Application, p.3 and Butte County response to staff questions, dated March 30, 2005, Fiscal question # 10
The County's GA expenditure is computed by first multiplying the current GA rate by the number of GA recipients to compute a monthly GA expenditure; and then multiply the monthly GA expenditure by 12. The number of monthly General Assistance recipients is estimated as follows: average monthly number of recipients for 2000-01 through 2003-04 is 329 ((313+305+341+355)/4). The monthly average for 2004-05 is 330 (up to February). Consequently, 330 appears to be a reasonable estimate for the number of monthly recipients for 2004-05. The County's 12-month period GA payments would be: \$1,144,440 = \$289*330*12.

³⁹ Butte County responses to Legal Services of Northern California comments, dated April 14, 2005, Response # 4

⁴⁰ Welfare and Institution Code, Section 17000.6 (a)

⁴¹ Butte County response to staff questions, dated March 30, 2005, Fiscal Question # 10

⁴² Butte County Application, p.3 and Butte County response to staff questions, dated March 30, 2005, Fiscal question # 10
Cost savings is computed by taking the following steps: 1) Compute the difference between the current GA rate and proposed reduced GA rate; 2) Compute the monthly cost savings by multiplying the difference computed in the step 1) by the number of monthly GA recipients; and 3) Compute annual savings by multiplying the monthly savings by 12. The number of monthly General Assistance recipients is estimated as described in footnote earlier.

Cost savings would be: \$269,280 = (\$289-\$221)*330*12.

⁴³ Butte County Application, p. 55-57 and p. 52-55

⁴⁴ Butte County 2004-05 Proposed Budget Message, p. 6

⁴⁵ See Exhibit L.

positions.⁴⁶ In efforts to create opportunities for displaced employees, the County implemented a retirement incentive package to eligible employees. The County further instituted a voluntary furlough program in November 1999. The County keeps records of the number of furlough hours, but does not track the cost savings associated with those hours. The following information summarizes the hours and full-time equivalents saved for fiscal years 2002-03 and 2003-04, as well as an estimate for FY 2004-05:⁴⁷

Salary Savings

Fiscal Year	Actual Hours	Pay Periods	Estimated Hours	FTE
2002-03	3,000	26	3000	1.44
2003-04	12,442	26	12,442	5.98
2004-05	7,523	19	10,295	4.95

The budgetary benefit is realized in the year-end fund balance rather than reducing budgeted salaries and benefits.

General Credit Rating and Debt Financing

In 2004, the County issued Pension Obligation Bonds (POBs) to fund its contributions to the California Public Employees Retirement System. Three series were issued for a total of \$57,760,000. These POBs were issued by Ambac and rated AAA/Aaa.⁴⁸

The County also issued Tax and Revenue Anticipation Notes (TRAN). The County provided the following information summarizing TRAN's issued in fiscal years 2001-02 through FY 2004-05.⁴⁹

Net Benefits and Costs for TRANs

FY	Note Amount	Premium Earned	Issuance Costs	Interest Revenues		Interest Expense	Net Benefit/Cost
04/05	\$18,470,000	\$357,764	(\$53,335)	\$694,300	*	(\$700,321)	\$298,408
03/04	None issued						NA
02/03	\$3,500,000	\$44,590	(\$17,155)	\$150,140	*	(\$105,000)	\$72,575
01/02	4,880,000	\$117,266	(\$18,920)	\$247,678	*	(\$248,880)	\$97,144
* Interest Earned figures represent the maximum amount that could have been earned assuming all TRAN dollars remained on deposit each day of the year.							

⁴⁶ Butte County Application, p. 53

⁴⁷ Butte County response to staff questions, dated March 30, 2005, Fiscal Question # 15

⁴⁸ Butte County response to staff questions, dated March 30, 2005, Fiscal Question # 20

⁴⁹ Butte County response to staff questions, dated March 30, 2005, Fiscal Question # 18

Planned debt issuances include the following:

- TRAN for FY 2005-06 (amount not yet determined)
- VLF gap financing is approximately \$4.0 million
- Solar energy financing is approximately \$4.5 million

The County's ability to issue debt that is highly rated illustrates its positive fiscal condition, and provides the County with another resource flexibility option.

Recommendation

In summary, staff recommends the Commission find that the County has \$8,290,839 in resource flexibility as follows:

Summary of Resource Flexibility

					Staff Recommendation	
	REVENUE					
	Motor Vehicle in-lieu Tax				\$ -	
	Sales Tax				-	
	Property Tax				-	
	Prop. 172 Sales Tax				1,139,014	
	Charges for Services				171,441	
	Revenue Flexibility				1,310,455	
	RESERVES					
	Appropriation for Contingency				5,616,078	
	Cost Savings Flexibility				525,000	
	Unexpended Available Resources				7,367	
	Internal Service Fund Balance				831,939	
	Reserves Flexibility				6,980,384	
	STATUTORY RELIEF					
	TOTAL RESOURCE FLEXIBILITY				\$ 8,290,839	